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FISCAL IMPACT STATEMENT

LS 6640

BILL NUMBER: HB 1174

NOTE PREPARED: Dec 30, 2012

BILL AMENDED:

SUBJECT: Municipal Utility Funds and Economic Development.

FIRST AUTHOR: Rep. Friend

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: *Municipal Utility Funds:* This bill allows the board of a municipally owned utility to approve or recommend a transfer of all or part of the utility's surplus earnings from the utility's cash reserve fund to: (1) the municipality's general fund; or (2) a local economic development organization to benefit or promote the municipality, the utility's service area, or the county or region in which the municipality or the utility's service area is located. (Current law allows for a transfer of the utility's surplus earnings only to the municipality's general fund.)

It provides that rates and charges in lieu of taxes incorporated into a municipally owned utility's rates and charges may be transferred to: (1) the municipal general fund; or (2) if the cash revenue requirements of the utility have been met, the utility's cash reserve fund. (Current law allows for a transfer of rates and charges in lieu of taxes only to the municipality's general fund.)

The bill provides that a municipality that seeks to make a transfer from the municipally owned utility's cash reserve fund to a local economic development organization may not impose a special rate, charge, surcharge, or other fee on the customers of the utility in order to pay for the transfer.

State Board of Accounts: The bill also authorizes the State Board of Accounts to adopt rules, including emergency rules, to implement these provisions.

Effective Date: Upon passage; July 1, 2013.

Explanation of State Expenditures: *State Board of Accounts:* Adopting rules to implement these provisions should be within the agency's existing resources.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Municipal Utility Funds:* Under current law, a municipality's general fund may receive revenues from utility's surplus earnings (from the utility's cash reserve fund), and from the rates and charges sufficient to compensate the municipality for the taxes that would be due the municipality if the utility were privately owned (rates and charges in lieu of taxes).

This bill authorizes the municipality to do the following:

- (a) Transfer some of the revenue from rates and charges in lieu of taxes that would normally go its general fund to the utility's cash reserve fund.
- (b) Transfer funds from the utility's cash reserve fund that under current law would go to the municipality's general fund to a local economic development organization.

In essence, the bill authorizes the municipality to divert some of the utility's revenue, originally earmarked for its general fund, to a local economic development organization. The long-term fiscal impact would depend on how much revenue was diverted and the return on investment of the projects sponsored by the economic development organization..

The bill stipulates that a municipality that seeks to make a transfer from the municipally owned utility's cash reserve fund to a local economic development organization may not recoup the amount through a special rate, charge, surcharge, or other fee on the customers of the utility. However, this should not prevent the utility from offering incentives (e.g., reduced rates) to industrial and commercial customers to encourage them to locate in its service area.

State Agencies Affected:

Local Agencies Affected: Municipally owned utilities; Local economic development organizations.

Information Sources:

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